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Costs of NATO Enlargement

Moderate and Affordable

by Richard L. Kugler

Conclusions

- NATO must pursue a sound defense program as it enlarges-not to prepare for a threat, but to meet its peacetime preparedness standard.
- DOD's cost estimate of \$27-35 billion for all NATO enlargement measures through 2009 causes sticker shock to some, but it is moderate: only about 1% of NATO's total defense spending.
- This estimate is not low-sided or prone to major inflation. It is similar to the RAND estimate, and lower than the CBO estimate because CBO embraced a higher threat and theory of requirements.
- The United States will not be carrying unfair burdens. Its expense may be no more than \$2 billion through 2009. The cost of stationing U.S. forces in Europe will not rise appreciably.

The Cost Issue in the Enlargement Debate

Cost has become an important factor in the NATO enlargement debate. It will influence the Senate's vote on ratifying the admission of three new members in 1999-Poland, the Czech Republic, and Hungary. NATO's willingness to fund key defense measures will influence whether enlargement unfolds safely and effectively.

This *Strategic Forum* explains the costs of NATO enlargement in clear terms. *Strategic Forum* #129 by David C. Gompert addresses the benefits of a sound defense program. This paper focuses on seven key issues:

1. Why pay costs if no threat exists?
2. What is DOD's cost estimate and its rationale?
3. Is the cost affordable or excessive?
4. Is DOD's estimate accurate or vulnerable to inflation?
5. Is DOD's estimate lower than other estimates, and if so, why?
6. Will enlargement require bigger defense budgets?
7. Will the United States have to carry an unfair share of the burden?

Why Pay Costs If No Threat Exists?

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The answer is that NATO needs strong defenses even though its new borders today face no major threat. NATO's "peacetime preparedness standard" needs smaller forces and budgets than during the Cold War, but it is still demanding. As NATO enlarges, it must avoid a two-tier alliance in which new members receive less security than old members.

Strong forces are required for peace support missions, minor crises, as well as other interventions. These forces will help build partnership relations with non-NATO powers, deter threats from emerging, and prevent destabilizing trends. Members must be assured of their security in the event relations with outside powers sour. NATO also needs to promote sound planning and integration. Members can decide upon defense efforts and multinational involvements only if they are given a clear definition of NATO's commitments to their security. NATO must ensure that the forces of new and old members are sufficient both now and for the future.

What is DOD's Cost Estimate and Its Rationale?

In February 1997, the Clinton Administration issued a study judging that the costs of NATO enlargement will be \$27-35 billion for the years 1997-2009. This is the cost facing the entire alliance. The United States will pay only a small portion of it—perhaps no more than \$1.5-2.0 billion. The average annual cost will be \$2.1-2.7 billion for NATO as a whole, and \$150-200 million for the United States over the decade following accession. The primary reason for the low U.S. expense is that the United States already has paid the cost of developing forces for projection missions.

This DOD estimate is notional, but it was a product of a serious review that employed sound methods. It was prepared before NATO began assessing defense requirements for enlargement. It also was prepared in advance of validated cost data for some specifics. Its purpose is not to be definitive, but instead to gauge costs in approximate terms. It is a starting point for designing NATO's defense relationships with new members. Doubtless it will be refined as NATO develops better information.

It should be viewed as a basis for judging broad policy and strategy, not as precise tool for programming and budgeting.

DOD's estimate grows out of NATO's strategic concept and defense strategy. It presumes that new members will take primary responsibility for their self-defense, and that NATO's current members will provide necessary reinforcements. Because it judges that adequate levels of combat forces already exist, it focuses on steps needed to make existing forces capable of carrying out enlargement.

Some of these measures are already underway, and many arguably would be needed irrespective of enlargement. The DOD estimate divides costs into three categories:

1. New Members' Military Restructuring. This category costs \$10-13 billion during 1997-2009. It includes force structure adjustments and enhancements by new members so that they improve their self-defense capability. It includes measures to upgrade modernization, readiness, and sustainment.

2. NATO Regional Reinforcement Capabilities. This category costs \$8-10 billion. It deals with steps for upgrading NATO's capacity to deploy forces eastward in peace, crisis, and war. It includes measures to enhance deployability, logistics, and sustainment. It assumes a NATO reinforcement posture of four divisions and six fighter wings.

3. Direct Enlargement Costs. This category costs \$9-12 billion. It includes measures directly tied to

enlargement so that the forces of new members and old members can operate together. It includes such measures as improved C3I, infrastructure (e.g., roads and rail), reception facilities, training sites, and storage areas.

This estimate is based on assumptions that first establish an "initial capability" and culminate in a "mature capability" by 2009. It calculates that new members will pay \$13.0-17.5 billion, the non-U.S. NATO members will pay \$12.5-15.5 billion, and the United States, the remainder. Because this estimate includes only enlargement-related measures, it does not include the larger defense preparations that all NATO countries will be pursuing. The costs for new members will consume 15%-25% of their future defense spending of \$65-100 billion; the remainder will be used for national programs.

This estimate is based on a "middle-ground" theory of requirements. It is not minimalist. It is not a bare-bones estimate aimed at minimizing costs at the expense of necessary capabilities. It does not reflect a high theory of requirements that acquires all plausible capabilities. It is not threat-based, and it does not expect trouble with Russia. It reflects a normal NATO peacetime preparedness standard in which the goal is to acquire essential capabilities at an affordable price.

Is the Cost Affordable or Excessive?

To some, DOD's cost estimate of \$27-35 billion causes sticker shock. Seen in a broader perspective, it is moderate and affordable:

- It is similar to the cost of normal defense departures of this type: e.g., a U.S. air modernization program or defense of another region.
- It imposes a high financial burden only on new members, who will gain big strategic benefits.
- For the West European members of NATO, it will cost only about 1% of the \$2 trillion that they will be spending on defense.
- For the United States, it will cost only about one-tenth of 1% of DOD's future spending of \$3 trillion. The cost of stationing U.S. forces in Europe will not rise appreciably (by my estimate 2-5 percent or less).

Other comparisons reinforce the conclusion of moderate costs:

- The cost of \$27-35 billion for all of NATO is equal to the full expense of a single U.S. active division or carrier battle group for a similar period.
- The annual cost is about 30% of what the United States and NATO spend on military construction, and 40% of their expense on family housing.
- The cost is equal to what they spend on revolving accounts and management funds-small accounts that fluctuate upward and downward.

For the average citizen, the costs are affordable (see Table 1: A Comparison of Enlargement Costs). For the average American, the annual cost is equal to the price of a candy bar. For a West European, it is equal to that of a McDonald's hamburger. For the CEE citizen, the cost would pay for one dinner at a restaurant.

Given the immense strategic benefits of NATO enlargement, all are getting their money's worth. Moreover, alliances save money. For all participants, NATO enlargement lowers the cost of integrating and defending the CEE region. If NATO does not enlarge, the costs could be double that of enlargement.

Is DOD's Estimate Accurate or Vulnerable to Inflation?

Can DOD's estimate be trusted as accurate? Is there a risk that DOD is underestimating? These questions are being asked because many previous defense programs became far more expensive as they unfolded. When the details are considered, the DOD estimate merits confidence-provided its underlying plan is not changed in a wholesale way.

Table 1: A Comparison of Enlargement Costs

Cost To:	Annual Cost	Total Cost
Average U.S. Citizen	\$0.67	\$8.75
Average West European Citizen	\$2.60	\$34.15
Average New-member Citizen	\$21.00	\$272.50

The DOD estimate is based on judgments about more than 30 measures. No single measure dominates. If the true cost is radically different from the DOD estimate, it will occur because several measures are pulling in that direction, not just one measure. As a result, the primary determinant of costs is not the expense of individual items, but strategic decisions about requirements.

The actual costs for each measure might prove to be different than DOD has estimated. This owes to potential variations in both costs and the measures themselves. For example, the cost of a single prepared airbase might be higher or lower than DOD estimated. Alternatively, NATO might decide to acquire fewer or more airbases. But unless the totality of measures is greatly expanded or contracted, the final cost for the entire plan likely will be similar to the DOD estimate. Higher costs for some measures probably will be balanced by lower costs for others. For example, acquisition of Patriot rather than I-Hawk could elevate costs for air defense improvements, but pursuit of less-costly measures for airbases and other facilities could offset this increase. This up-and-down dynamic likely will keep the cost in the \$27-35 billion range.

The actual costs will not be known until NATO's force planning process for enlargement is finalized. NATO may decide to trim or delay some of DOD's measures. Moreover, NATO develops cost estimates only for common-funded programs (e.g. infrastructure). These factors may lower NATO's estimate, below the DOD estimate. The real issue is not these narrow costs, but instead costs for the entire defense program when it is complete.

When the dust settles, the costs could be somewhat lower than DOD has estimated. The specific needs of the three invitees might change, thus lowering the cost a little. Another reason is that some measures (e.g., reception facilities) may cost less than estimated by DOD. Even so, the total cost could be far lower only if the major features of DOD's estimate are scaled back sharply. This step is inadvisable because it could result in a weakened effort that fails to meet future requirements.

The cost could rise above \$35 billion, but the DOD estimate is vulnerable to major cost inflation only if its theory of requirements is elevated far upwards. The DOD estimate does not develop new technologies, which can be a principal source of cost inflation. Costs could surge if NATO commits to a much larger reinforcement posture or if new members buy more expensive equipment than envisioned by DOD. Such measures could be needed if a threat emerges, but not in today's setting. NATO will be able to control costs, for they are largely a product of strategic decisions.

Is DOD's Estimate Lower Than Other Estimates?

DOD's estimate is in the same ballpark as RAND's estimate. For the same defense strategy, RAND estimated a cost of \$30-52 billion. RAND's mid-point estimate of \$42 billion is higher than DOD's estimate primarily for a single reason. Whereas RAND costed a NATO reinforcement posture of five divisions and 10 wings (a typical U.S. force practice), DOD costed four divisions and six wings because this commitment reflects NATO's practice. Had RAND costed the DOD program, its estimate would have been \$28-34 billion: virtually identical to DOD's estimate.

The General Accounting Office (GAO) has assessed the DOD estimate and, despite questioning specifics, pronounced its assumptions as reasonable. The Congressional Budget Office (CBO) tabled a higher estimate of about \$125 billion, but the differences are readily explained. About \$30 billion of the difference owes to CBO's inclusion of new-member measures that DOD deemed as falling outside the NATO enlargement account. The remaining difference owes to CBO's decision to embrace a higher theory of threats and requirements. CBO costed a NATO reinforcement posture of 12 divisions and 12 wings, a difference of nearly \$30 billion. CBO also included more robust measures for C3I systems, munitions, and facilities. To CBO, these measures make military sense. DOD's estimate judges that they are not needed.

Will Enlargement Require Bigger Defense Budgets?

If the DOD estimate is carried out, new members will need to increase their defense spending in order to fund enlargement measures while also improving their forces. NATO membership will allow them to downsize their currently large postures because they will be receiving security guarantees. This downsizing will generate savings to help pay for many enlargement measures. These countries need to increase their defense spending not only because they are joining NATO, but because the quality of their forces has eroded in recent years. If they do not gain membership in NATO, their defense budgets will need to rise far faster. As they join NATO, economic recovery may allow higher spending without allocating greatly increased shares of GDP to defense.

NATO's current members can fund enlargement by increasing their defense budgets, or reprioritizing, or both. Increased spending avoids the need to pare defense assets elsewhere. Reprioritization is always painful, but the amount required to fund NATO enlargement is feasible—only about \$1 billion annually split among all current members.

If the West Europeans choose to reprioritize, they could trim spending on operations and maintenance. Alternatively, retiring a few units would not compromise their security.

Will the United States Have to Carry an Unfair Share of the Burden?

The DOD commitment to defense of new members is one division and one fighter wing, or about 25% of NATO's reinforcement posture. The DOD funding commitment of \$1.5-2.0 billion is only about 10%

of the expense for enlargement facing NATO's current members. The West Europeans and NATO's new members will be carrying the bulk of the burdens in forces and money.

The U.S. expense could rise if other NATO members fail to carry their fair share of the burden, or if the United States decides to aid new members by giving them security assistance.

The U.S. costs could rise moderately and still be affordable. The United States will have control over the expense. If it chooses to spend more, it will act because the strategic benefits are worth the added costs, not because of circumstances beyond its control.

Summary

The costs are moderate and, as Gompert argues, the benefits are compelling. To gain these benefits, an appropriate set of defense measures must be implemented. NATO has carried out many similar innovations before, but such efforts are never easy. Careful management and sustained political commitment will be needed. The outcome will influence the enlargement's success.

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